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C O N F I D E N T I A L SECTION 01 OF 03 SHENYANG 000067

SIPDIS

DEPARTMENT FOR EAP/K, EAP/CM, INR, PRM

E.O. 12958: DECL: TEN YEARS AFTER KOREAN UNIFICATION

TAGS: [PREL](#) [PINR](#) [PGOV](#) [PREF](#) [EAGR](#) [KN](#) [KS](#) [CH](#)

SUBJECT: NORTH KOREA: PRICE WOES, SQUEEZED AID GROUPS, PRC
GRAIN-EXPORT ENFORCEMENT

REF: A. (A) SHENYANG 37

[1](#)B. (B) SHENYANG 30

[1](#)C. (C) SHENYANG 14

Classified By: ACTING CONSUL GENERAL ROBERT DEWITT.

REASONS: 1.4(b)/(d).

[1](#)1. (C) SUMMARY: Recent returnees from Pyongyang, Sinuiju and Rason point to sharply surging food prices in the DPRK. North Korean laborers employed by one aid group in Rason have complained that food-inflation has eviscerated their purchasing power. Customs officials in Yanbian are strictly enforcing grain-export restrictions, and anecdotal reports suggest possible tightening in recent weeks. PRC officials and scholars assert PRC grain-export restrictions have had only a minimal impact on PRC-DPRK trade and on North Korea's internal food situation. NGO personnel operating in the Rason area and near the PRC-DPRK border, by contrast, claim PRC export restrictions have severely debilitated some food-related aid projects, though experiences vary. END SUMMARY.

[1](#)2. (C) Poloff traveled May 12-16 to Jilin Province and the northern end of the PRC-DPRK borderlands. Sites visited included Changchun, capital of Jilin Province; Yanji, seat of the Yanbian Korean Autonomous Prefecture; Tumen, opposite the DPRK's Namyang; and Hunchun, near China's land gateway to Rajin-Sonbong (Rason). This is the first in a multi-part snapshot of the PRC-DPRK border in April/May [1](#)2008. Subsequent parts examine North Korean food difficulties, official/unofficial PRC food assistance, the tightening border and North Korean border-crossers, inter alia.

SURGING FOOD PRICES IN NORTH KOREA

[1](#)3. (C) Recent returnees from Pyongyang, Sinuiju and Rason all pointed to surging food prices in North Korea. A Yanji-based Korean-American recently returned from a two-week stay in Pyongyang noted May 14 that fruit prices in the city's markets had at least doubled compared to the same period last May. The price of grains there has risen similarly, observed the Amcit, a monthly traveler to Pyongyang over the past several years. LIU Chensheng (STRICTLY PROTECT), a facilitator of PRC investment in North Korea via the Liaoning Civilian Entrepreneur

Association's Korean Liaison Office, told Poloff April 29 in Shenyang that he observed rapidly increasing North Korean food prices during his recent business trips to Pyongyang and Sinuiju (opposite Dandong, in the DPRK's far northwest), which he makes on at least a monthly basis. A Yanbian-based Western aid worker recently returned from an ongoing aid project in Rason reported May 16 that the price of certain food products--many imported from the PRC--in the northeastern port-city's markets had doubled, and in some cases tripled.

14. (C) North Korean laborers employed in Rason by the Yanbian-based aid worker's NGO recently complained to their employers that their salaries had become effectively "worthless" because of sharply rising food prices. The NGO's attempt earlier this month to ship rice from China to the project-site in Rason as a salary supplement for workers (and to guarantee supply for its Western staff there) was scuttled by PRC grain-export restrictions, according to the aid worker.

TIGHTENING ENFORCEMENT OF PRC EXPORT RESTRICTIONS...

15. (C) Anecdotal reports suggest an additional tightening of the PRC's recent export regulations on grains and other commodities (see refs A-C), at least in Yanbian. Despite the new regulations, the Yanbian-based aid worker noted that in recent months she had been able to successfully ship grains into Rason via Quanhe Land Port (near Hunchun), albeit at considerable cost because of the elevated export taxes. But starting "two or three weeks ago," officials at

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Hunchun Customs suddenly informed her that no grain exports to the DPRK would be permitted, regardless of whether shippers had remaining space in their export quotas. Enforcement at Quanhe Land Port is strict, she reported. Chinese customs authorities there, for instance, recently confiscated a 25-kilogram bag of rice from her friend, another Western aid worker who had sought to bring the rice to Rason for personal use, though customs returned it when he re-entered China. Quanhe customs officials also confiscated a far smaller amount from our contact without explanation; upon protest, they permitted her to bring in a token fistful, she related.

...BUT PRC CONTACTS ASSERT IMPACT IS MINIMAL

16. (C) PRC officials and scholars generally assert that PRC grain-export restrictions have had a minimal impact on PRC-DPRK trade, as well as on North Korea's internal food situation. Two respected North Korea experts at the Jilin Academy of Social Sciences (JASS), CHEN Longshan (STRICTLY PROTECT) and ZHANG Yushan (STRICTLY PROTECT), acknowledged May 12 in Changchun that China's grain-export policy has had "some impact," but asserted any effect was mitigated by the PRC's continued offer to supply the DPRK with sufficient humanitarian aid. A frank senior official overseeing all Yanbian's land ports told Poloff May 15 in Yanji that he was unaware of any dramatic impact on PRC-DPRK trade, a point echoed May 16 by officials in Tumen, who spoke of strict enforcement of grain-export restrictions at Tumen Land Port. Farther south in Dandong, through which the majority of PRC-DPRK trade passes, YONG Renzhong (STRICTLY PROTECT), Director of Dandong's Port of Entry Administration, told Poloff during a visit to Shenyang May 20 that the restrictions have had little "visible" impact on PRC-DPRK trade there. Two North Korea experts at the Liaoning Academy of Social Science, LU Chao (STRICTLY PROTECT) and WU Jianhua (STRICTLY PROTECT) suggested that the DPRK has been suffering "a certain impact," but ultimately proffered conclusions similar to Yong Renzhong's during discussions with Poloff on April 28.

17. (C) (NOTE: Some Chinese government scholars are advising

Beijing to limit the "temporary" grain-export controls to no more than one year, lest they cause major distortions in the agricultural sector, and in incentives to producers in particular, according to JASS' Zhang Yushan, a specialist on DPRK economic issues. END NOTE.)

SOME NORTH KOREAN AID PROJECTS FEELING THE SQUEEZE

18. (C) In contrast with most PRC officials and government scholars, NGO personnel involved with humanitarian projects in the DPRK told Poloff that PRC grain-export restrictions have had an impact on certain projects. Experiences, however, vary. The Yanbian-based, Western aid worker, for instance, claimed several humanitarian bread and/or noodle factories run by NGO groups in the Rason area have been forced to cease operations because they have been unable to import Chinese grain (e.g., flour) into the DPRK as before. (The aid worker knows of at least "seven or eight" such operations in Rason, though it remains unclear exactly how many suspended operations. Some of the larger ones employ up to 40 or 50 North Koreans, she said.) A number of NGOs, unclear on how to proceed, are exploring ways to procure grain from Russia or South Korea, ultimately shipping the inputs to the DPRK by sea, according to the aid worker.

19. (C) Closer to the PRC-DPRK border, other humanitarian food-factories have managed to muddle through, according to a Western administrator at Yanji's Yanbian University of Science and Technology involved with the school's quiet aid projects in North Korea. The administrator suggested that pre-existing ventures with which she is familiar have seemed to suffer less of an impact, though she declined to offer specifics. In certain cases, she said, some humanitarian groups have shifted aid strategies and

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procedures in order to comply with the new export regulations. One shift involves processing all their inputs (e.g., soy) in China--instead of the DPRK--and exporting only finished products (e.g., high-protein soy products) to the DPRK.

DEWITT